

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name: City of Eastpointe, Michigan Employees' Retirement System	County Macomb
Audit Date June 30, 2004	Opinion Date October 29, 2004	Date Accountant Report Submitted To State: December 30, 2004	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- | | |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132]) |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): PLANTE & MORAN, PLLC			
Street Address 10 South Main Street, Suite 200	City Mt. Clemens	State MI	ZIP 48043-7903
Accountant Signature 			

City of Eastpointe, Michigan Employees' Retirement System

**Financial Report
with Supplemental Information
June 30, 2004**

City of Eastpointe, Michigan Employees' Retirement System

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Independent Auditor's Report

To the Board of Trustees
City of Eastpointe, Michigan
Employees' Retirement System

We have audited the accompanying basic financial statements of the City of Eastpointe, Michigan Employees' Retirement System (a component unit of the City of Eastpointe, Michigan) as of and for the year ended June 30, 2004, as listed in the table of contents. These financial statements are the responsibility of the City of Eastpointe, Michigan's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the plan net assets of the City of Eastpointe, Michigan Employees' Retirement System at June 30, 2004 and the changes in plan net assets for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying schedules of funding progress and employer contributions, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

The City of Eastpointe, Michigan Employees' Retirement System has not presented the management's discussion and analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

Plante & Moran, PLLC

October 29, 2004



A worldwide association of independent accounting firms

City of Eastpointe, Michigan Employees' Retirement System

Statement of Plan Net Assets June 30, 2004

Assets

Cash and cash equivalents (Note 5)	\$ 12,230,690
Investments (Note 5):	
U.S. government securities	3,975,034
Corporate bonds and other securities	3,295,554
Corporate stock	<u>28,170,226</u>
Total investments	<u>35,440,814</u>
Total assets	47,671,504

Liabilities - Accounts payable	<u>48,480</u>
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Net Assets Held in Trust for Pension Benefits (See schedule of funding progress on page 8)	<u><u>\$ 47,623,024</u></u>
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City of Eastpointe, Michigan

Employees' Retirement System

Statement of Changes in Plan Net Assets Year Ended June 30, 2004

Additions - Investment income	
Net appreciation in fair value of investments	\$ 3,874,075
Interest and dividends	1,150,436
Less investment expenses	<u>(300,879)</u>
Net additions	4,723,632
Deductions	
Pension benefits	2,904,302
Administrative expenses	<u>7,875</u>
Total deductions	<u>2,912,177</u>
Net Increase in Plan Net Assets	1,811,455
Net Assets Held in Trust for Pension Benefits - July 1, 2003	<u>45,811,569</u>
Net Assets Held in Trust for Pension Benefits - June 30, 2004	<u>\$ 47,623,024</u>

City of Eastpointe, Michigan Employees' Retirement System

Notes to Financial Statements June 30, 2004

Note 1 - Summary of Significant Accounting Policies

The City of Eastpointe, Michigan Employees' Retirement System (the "System") is the administrator of a single-employer public employees' retirement system that covers all full-time employees of the City of Eastpointe, Michigan (the "City"). The System's financial statements are also included in the basic financial statements of the City as a Pension and Other Employee Benefit Trust Fund. Management has elected not to present a management's discussion and analysis in the financial report.

Basis of Accounting - The System uses the accrual method of accounting. Employer contributions to the System are recognized when due and the employer has made a formal commitment to provide the contributions. Benefit payments and refunds are recognized when due and payable in accordance with the terms of the plan.

Method Used to Value Investments - Investments are reported at fair value. Securities traded on a national exchange are valued at the last reported sales price.

Note 2 - Plan Description

The System provides retirement, death, and health care benefits to plan members and their beneficiaries. At June 30, 2003, the date of the most recent actuarial valuation, membership consisted of 164 retirees and beneficiaries receiving benefits and terminated employees entitled to benefits but not yet receiving them, and 163 current active employees. The obligation to contribute to and maintain the System was established by negotiation with the City's collective bargaining units.

Note 3 - Contributions

The funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are intended to accumulate sufficient assets to pay pension benefits when due. System members are not required to contribute. Administrative costs of the plan are financed through investment earnings.

Note 4 - Reserves

At June 30, 2004, the System's legally required reserves have been fully funded as follows:

Reserve for employees' contributions	\$ 417,726
Reserve for retiree benefit payments	36,614,961

City of Eastpointe, Michigan

Employees' Retirement System

Notes to Financial Statements June 30, 2004

Note 5 - Deposits and Investments

The System's deposits and investments at June 30, 2004 are included on the statement of plan net assets under the following classifications:

Cash and cash equivalents	\$ 12,230,690
Investments	<u>35,440,814</u>
Total	<u>\$ 47,671,504</u>

The above amounts are classified by Governmental Accounting Standards Board Statement No. 3 in the following categories:

Bank deposits (checking accounts)	\$ 2,619,823
Investments in securities, mutual funds, and similar vehicles	<u>45,051,681</u>
Total	<u>\$ 47,671,504</u>

Deposits - The System's deposits were reflected in the accounts of the bank (without recognition of checks written but not yet cleared or of deposits in transit) at approximately \$2,659,000, all of which is covered by federal depository insurance.

Investments - The System is authorized by Michigan Public Act 485 of 1996, as amended, to invest in U.S. bonds and notes, certain commercial paper, U.S. government repurchase agreements, bankers' acceptances and mutual funds, investment pools that are composed of authorized investment vehicles, certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles. At June 30, 2004, there were no investments in any one organization (other than the U.S. government) in excess of 5 percent of net assets available for benefits.

City of Eastpointe, Michigan

Employees' Retirement System

Notes to Financial Statements

June 30, 2004

Note 5 - Deposits and Investments (Continued)

The System's investments are categorized in the financial statements to give an indication of the level of risk assumed by the System at June 30, 2004. Category 1 includes investments that are insured or registered or for which the securities are held by the System or its agent in the System's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the System's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agent, but not in the System's name.

The System's investments at June 30, 2004 were classified as follows:

	Category			Carrying Amount (Fair Value)
	1	2	3	
U.S. government securities	\$ -	\$ -	\$ 3,975,034	\$ 3,975,034
Corporate bonds and other securities	-	-	3,295,554	3,295,554
Corporate stock	-	-	28,170,226	28,170,226
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 35,440,814</u>	35,440,814
Mutual funds				<u>9,610,867</u>
Total investments				<u>\$ 45,051,681</u>

The mutual funds are registered with the SEC and are not categorized because they are not evidenced by securities that exist in physical or book entry form. Management believes the investments of the System comply with the investment authority noted above.

City of Eastpointe, Michigan Employees' Retirement System

Notes to Financial Statements June 30, 2004

Note 5 - Deposits and Investments (Continued)

Included in the System's investments at June 30, 2004 are the following:

- Approximately \$1,732,000 of securities issued by the Federal National Mortgage Association (FNMA) and the Federal Home Loan Mortgage Corporation (FHLMC). These investments are backed only by the applicable government agency. The yields provided by these mortgage-related securities historically have exceeded the yields on other types of U.S. government securities with comparable maturities, in large measure due to the potential for prepayment. Prepayment could result in difficulty in reinvesting the prepaid amounts in investments with comparable yields.

Note 6 - Risk Management

The System's exposure to risk of loss, other than investment market loss, is minimal. Exposure is limited primarily to errors and omissions. The System manages risk by participating with the City of Eastpointe, Michigan in the Michigan Municipal Risk Management Authority risk pool.

Supplemental Information

City of Eastpointe, Michigan

Employees' Retirement System

Required Supplemental Information Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Overfunded AAL	Funded Ratio (Percent)	Covered Payroll	Overfunded AAL as a Percentage of Covered Payroll
06/30/98	\$ 42,343,648	\$ 41,285,899	\$ (1,057,749)	103	\$ 7,349,099	(14)
06/30/99*	51,377,333	39,535,364	(11,841,969)	130	7,845,331	(151)
06/30/00**	55,708,876	41,289,971	(14,418,905)	135	8,455,767	(171)
06/30/01	58,294,299	42,719,710	(15,574,589)	136	8,484,620	(184)
06/30/02**	58,305,372	45,584,633	(12,720,739)	128	9,030,827	(141)
06/30/03**	56,264,305	47,803,994	(8,460,311)	118	9,266,479	(91)

* Includes changes in actuarial assumptions

** Includes changes in benefit provisions

The information presented above was determined as part of the actuarial valuation at the dates indicated. Additional information as of June 30, 2003, the latest actuarial valuation date, is as follows:

Valuation date	June 30, 2003
Actuarial cost method	Individual entry age
Amortization method	Level percent open
Remaining amortization period	15 years
Asset valuation method	5-year smoothed market
Actuarial assumptions:	
Investment rate of return	8%*
Projected salary increase	4%-7%*
* Includes inflation at	4%
Cost-of-living adjustments	None

City of Eastpointe, Michigan

Employees' Retirement System

Required Supplemental Information Schedule of Employer Contributions

Year Ended June 30	Actuarial Valuation - Year Ended June 30	Annual Required Contribution	Percent Contributed
1999	1998	\$ 994,664	100
2000	1999	-	100
2001	2000	-	100
2002	2001	10,978	-
2003	2002	174,637	-
2004	2003	432,939	-

The above contributions are for pension benefits only and do not include amounts contributed for health care coverage. Amounts contributed for health care coverage are recorded in the City's Retiree Health Care Fund, which was established during the City's year ended June 30, 2000.